

## ECONOMICS AND GLOBALIZATION - CHAPTER 9

### POST-WORLD WAR II ERA

**PROF JAMES LUTZ, INDIANA UNIVERSITY**

(**Abstract:** Period of U.S economic history and globalization from the end of World War II until the present.)

PROF LUTZ: The first topic for today is the United States and globalization and capitalization. I want to focus a little bit on the changing U.S. role in the international political economy.

After World War II the United States was in a relatively unique position. That comes as no surprise, of course, because the United States was in the unique position of being the major industrial power that had not suffered any major disruptions to its domestic economy due to warfare. The U.S. economy drove the world, the world reacted to the United States and the United States could pretty much go its own way. U.S. political and economic leaders looked first to the domestic arena and looked at the rest of the world as an afterthought.

The United States no longer dominates the global economy. The recovery of Europe and Japan was bound to alter the dominant position of the United States. One other thing that has dramatically changed the U.S. position was the end of the Cold War and the collapse of the Soviet Union. Prior to the collapse, the decisions of the United States and its allies were based on a mix of economic and political-military security issues. The United States could frequently get its allies to make economic concessions as part of the common struggle in the Cold War against the Soviet Union and communism. They would make concessions in economic areas in return for which we provided diplomatic and military support.

With the end of the Cold War -- with the collapse of communism to put it in economic terms -- suddenly the United States had less to trade. Security support was no longer needed. Suddenly -- more so with Western Europe and Japan -- our allies were taking a much stronger stand in some areas in terms of economic negotiation because the implicit trade-off was gone. Also important, of course, was the strengthening of the European Union as an economic institution and its expansion, which makes it a more equal bargaining and negotiating partner with a collection of 20 or so countries.

It was said that if the United States sneezed the rest of the world caught a cold in economic terms, which was an indication of how important the United States economy was to at least the Western economical political system. Today, of course, if the rest of the world sneezes then the United States can catch a cold very easily. The United States is tied in economically to the rest of the world in terms of trade and financial services and things of this nature. The global currency markets are really beyond the control of any government, let alone the United States.

Domestic concerns about globalization: There are domestic concerns in the United States in regards to the international political economy that I want to talk about. In the United States there are groups that are particularly concerned about increasing globalization and the loss of control of the U.S. government over the local economy. There are some hardcore isolationists -- economic, cultural and political -- who are opposed to increasing globalization and the reach of global capitalism. There

are many people in the United States who think we have to be cautious about foreigners investing in our country.

There was a great panic in the 70's and 80's in the United States about Japanese investors buying up the country. There was actually some political overflow in that people got elected to Congress in terms of their policies on Japan. Of course, even then the largest source of foreign investment in the United States was from Great Britain. Nobody was concerned about British investment in the United States. It was Japanese investment because it was more culturally foreign.

Meanwhile, American labour has been opposed to some aspects of internationalization of the economy, and particularly global capitalism, because they see multinational corporations moving jobs from the United States to Mexico, to Asia, to wherever labour is cheaper and labour conditions are worse.

Moving jobs offshore has been a constant process in global capitalism for at least a century. A new product innovation typically occurs in an industrialised country, and as the markets become larger the technology spreads to other industrialised countries and thus becomes very basic with mass production. It eventually moves outside the industrialized countries to other places for production and then is exported back. Of course, along the way the industrialized countries are inventing new products and undergoing new processes and so there is a cycle involved and various countries play a role in that.

So that's been ongoing. The United States benefits, but there is a concern that jobs are being exported. From the perspective of American labour, the jobs that are being exported are in heavy industries that have production processes involving large numbers of people. These are sectors that are easily unionized. The steel industry and the automotive industry are among the sectors of the economy with large groups of working people in one spot where labour organization is easier and more effective.

Then there are service sectors. Silicon Valley has a huge range of computer companies, all of which collectively employ large numbers of people but none of which employs them in the same way the steel industry does. They are not as easily organized. "Computer geeks," to use an American term, would probably not appear to most as a group that you could organize. They're scattered in different companies, they move around a lot, and companies come and go. These jobs are difficult to unionize, and so labour is weakened as a political and economic actor.

The U.S. government itself, or parts of the U.S. government, has some concerns over increasing globalization. It is harder to undertake an economic policy to increase jobs. It is harder to control capital inflows or outflows because no government, the United States included, can control the ways in which some of those things occur.

The United States may be the largest country economically, but the implied lack of control over multinational corporations also applies to the United States because instantaneous communication makes it easier to get around government regulations. You are moving money around, and dare I say that sometimes American business is quicker than the American bureaucracy in transmitting information and getting things done.

Protectionism: All of these domestic concerns about globalization and interaction have shown up in the support for protection. You have members of Congress who are elected from districts that represent industries taking job losses and their voters put pressure on them to protect those jobs. It is hard to envision any member of Congress from Detroit voting for a bill that would dramatically increase imports of Japanese automobiles into the United States because of the importance of

the automotive industry in Detroit and other parts of Michigan. If you're a representative from western Kansas or Nebraska you are in favour of protecting American agriculture from unfair foreign competition. They are actually representing their constituency, and whether their constituency is right or wrong in some economic sense or broader political sense is beside the point. They are there to represent their constituency and if they don't do their job they don't get re-elected.

For a long time the Democratic Party was the party that was opposed to freer trade; the Republicans were in favour. When the Republicans gained control of Congress it meant there were more Republicans from districts affected by competition, and these Republicans vote much the same way as the Democrats they replaced because it was the same group of voters who elected them. Now, they have different policies in a whole range of other areas, but they are just as likely to vote against increasing the inflow of Japanese automobiles as the Democrats before them.

Both President Clinton with the North American Free Trade Agreement, which extended the U.S.-Canadian agreement to Mexico, and much more recently President Bush in getting passage of the Central American Free Trade Agreement had difficulty getting just enough votes from the House of Representatives to get through Congress.

Corporatism: Another important issue in terms of economic policy-making is countries like Japan and France have a long tradition in which the state is involved in the economy. So you have a cadre of trained personnel who deal with economic issues on a day-to-day basis. You have continuity in the government bureaucracy of trained professionals who have assisted governments in making economic decisions domestically and, more importantly, internationally.

You have *corporatism* where you have arrangements in which the government and management and labour meet together to formulate economic responses to global situations. In a smaller European country, for example, your domestic market is too small to support a massive industry. You have to export and so you have to make sure that your product is competitive. It's important to management, it's important to labour, it's important to the government and they arrive at arrangements. There may be no wage increases, but the government will increase social services in ways that help compensate the worker. The government will make a larger percentage contribution to the pension funds that had formerly been done by the company or the workers. So there are ways of compensating.

Management in return will make certain guarantees not to move factory jobs to other countries. It is a bringing together of management and labour with the government as the mediator or as the third party in trying to come up with something that works for the national economy. When you have a handful of major industries you can do it because you don't run into as many conflicts.

The United States, however, has more than a handful of major industries. It has handfuls of major industries that are going in different directions. Automobile production for a long time was opposed to freer trade because it meant more Japanese automobiles in the United States. The computer industry wanted freer trade because it meant more exports. At best they were arguing past each other; worst case, they were going head to head in wanting completely different policies. In a smaller country they can work around it.

The United States does not have a Ministry of Economics. The Department of Commerce is not really a Ministry of Economics. The United States has nothing like the Ministry of International Trade and Industry in Japan, which is a far-reaching ministry that not only deals with industrialisation but tries to involve industry with

trade. The U.S. Trade Representative is a relatively weak bureaucratic position. It is a small bureaucracy -- all other things being equal a large bureaucracy wins when it is in a struggle with a small bureaucracy.

The relative weakness of American political parties in terms of party discipline also comes into play. And while European political leaders come and go, American presidents sometimes come and go more frequently because of the two-term limit. You have a new U.S. trade representative with every new President. So when we are dealing with international economic situations with foreign governments, or cooperative arrangements between foreign multinationals and foreign governments, the U.S. position is somewhat weaker because of the lack of experience and the lack of continuity.

In conclusion, the United States is still the most important national economic unit, and that is an important distinction to make because the European Union is still to some extent a collection of national economic units. The United States is an integrated market. It is the largest, most important integrated market. But it no longer dominates in the way it did in the past. It is first amongst equals, and as the EU does integrate more we'll be second amongst equals.

And finally, the United States is less able to arrange international economic concerns to its satisfaction, partially because it doesn't dominate the economic system as it did before. The leverage that the Cold War provided the United States in convincing our allies to do the right thing as we defined it is gone. They define the right thing differently and they don't need the security umbrella anymore so they are much more willing to take a harder negotiating stance toward the United States on economic issues.

### **Question and answer session**

Question: Despite globalization the United States still continues to exercise protectionism toward its own industries more and more. What are your comments on that?

Prof. Lutz: Clearly at one level there is increasing efforts toward protection and there have been a wide variety of legislation passed designed to protect American jobs and to make imports more difficult.

Jagdish Baghwati, who is a free trader and in favour of globalization, pointed out that all these protectionist things that were passed in the United States in the 1980's didn't work and so he wasn't particularly worried. It had a nice political advantage for the politicians and the voters in that it looked like the United States was doing something, but it wasn't working. My conclusion would be to agree with Professor Baghwati.

Question: What percentage of the world's national resources is used by the United States?

Prof. Lutz: Far too many. Five percent of the world's population consumes between 20-25% of the natural resources. The figures vary but the United States is an industrialised country, even more so than Europe, that utilises more natural resources per capita than most countries. The United States is an over-user of natural resources partially because of a lack of a conservationist mentality, which is not totally absent but more prevalent in Europe and Japan because of population density.

Question: My question is in general circles and even in the academia there is a conception that globalization is a real threat to diversity. In light of that, how do you respond to the fact that globalization is generally Americanization?

Prof. Lutz: Languages and cultures are disappearing as a result of globalization because they are being overwhelmed. It is a consequence of globalization. Is globalization Americanization? The perception is that it is. I would suggest it is not as much Americanization as the common perception would have it be seen. People perceive westernization to be Americanization. People perceive globalization to be Americanization. Globalization is more westernization, which has a strong American component. But there are things that are occurring that would not be so American.

Clearly the global language increasingly is English. Last night when I got in late and I put the TV on there was Oprah, but then again there was BBC World, which is clearly not an American news program and which is very much domestically focused.

Question: In South Africa we are seeing a trend where public enterprises such as Eskom are actually going out into the rest of Africa to make a profit. Do you see the same thing happening in America? And then, please explain the economic considerations behind the U.S. not signing the Kyoto Protocol.

Prof. Lutz: The public enterprise sector in the United States is incredibly weak. I think that would probably prohibit any kind of extension of public enterprises going abroad to make a profit. I don't foresee that happening.

I'm not sure that there are any economic reasons for not signing the Kyoto Protocol except in the sense that the economic interests supporting the current administration were opposed. This is part of the cultural and political isolationists who say that the United States should not give up its national sovereignty to any foreign body. Those are people who are more likely to vote Republican. So part of it is a domestic re-election or election process.

There is actually one economic reason that I think is important. The U.S. tends to lag behind in dealing with environmental controls, so for the United States to join would be a competitive disadvantage.

Question: My question is to what extent does the U.S. government control multilateral financial institutions?

Prof. Lutz: The United States does not control the International Monetary Fund, but since the United States has a great deal of influence in it, it would be hard to envision the IMF flouting the desires of the U.S. administration. The U.S. doesn't control it, but the liberalisation reflects a lot of current economic thinking, which is shared by the US administration. This emphasis on liberalisation pre-dates the current administration. Part of it is conventional wisdom. Part of it, I think, is a reaction; communism was wrong so therefore we have to be right.